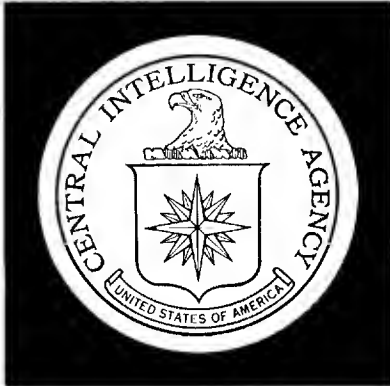


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South Vietnam: South Vietnamese units are developing confidence and aggressiveness as a result of their operations in Cambodia.

Several high-level South Vietnamese Army officers have said that the morale of their troops has improved and that the units involved in Cambodia have shown greater aggressiveness in offensive operations against the Communists. For example, II Corps commander General Lan recently stated that these operations have given South Vietnam's 47th Regiment a needed "shot in the arm."

More than 30,000 South Vietnamese have been assembled, transported, resupplied, and coordinated at one time, and they have taken pride in their ability to organize such large operations, even with US help. Previously, some of the units involved returned to their base camps regularly each night when conducting their usual operations in South Vietnam.

Although the South Vietnamese may be developing martial spirit as they pursue the Communists in Cambodia, this could well fade after they return to their more routine missions at home.

Meanwhile, security conditions have been deteriorating in most II Corps provinces, according to Lan. He hopes that the operations in Cambodia, especially the disruption of Communist logistics, will help improve pacification in II Corps. He is especially disappointed in the performance of the Regional Forces and Popular Forces, which have primary responsibility for improving territorial security and containing enemy local and guerrilla forces. According to Lan, the Communists have made particular inroads in Kontum and Pleiku provinces since the withdrawal under Vietnamization of elements of the US 4th Division, which had provided important support to pacification.

This decline in security [redacted]

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[redacted] has been attributed largely to the enemy's new emphasis on rebuilding his local control structures and on reasserting influence over the rural population. [redacted]

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Panama: The government has manifested its strong interest in an early resumption of canal treaty negotiations.

On Tuesday, General Torrijos and President Lakas stressed to the US Ambassador their hope that exploratory conversations would begin very soon. Torrijos opined that the US should be able to conclude a treaty once the November congressional elections were out of the way.

Last month both men suggested that the US demonstrate its good will by immediately returning certain areas within the Canal Zone, such as military airfields, and the docks at Colon and Balboa. Coming back to this point, Torrijos observed that Panamanians could not understand why the US would not return valuable Panamanian real estate which was not being used. He claimed he is repeatedly told that the only negotiating tactic the US understands is riots and recounted student complaints that they were not allowed to demonstrate against the US Ambassador. Torrijos, however, volunteered his belief that an understanding could be reached without resorting to violence. President Lakas, for his part, drew attention to the Panamanian willingness to extend the agreement permitting US use of the Rio Hato air base and training area when it expires in August. He then questioned US unwillingness to return France Field.

These statements appear to indicate that the government now feels pressured to begin negotiations but is particularly concerned that talks might drag on interminably with little political or economic benefit. The government continues to be pressed for funds to sustain its politically necessary public works program. Should financial difficulties increase, the regime would probably try to bail itself out by forcing concessions from the US. The government might unleash the students or demand a quid pro quo for Rio Hato.

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Ceylon: The sweeping victory of the left-wing coalition in the parliamentary elections yesterday is expected to presage some basic changes in Ceylon's domestic and foreign policies.

The coalition led by Mrs. Sirimavo Bandaranaike, prime minister from 1960-65, crushed the moderately pro-Western United National Party (UNP) of Prime Minister Senanayake. Mrs. Bandaranaike's nationalist Sri Lanka Freedom Party (SLFP) apparently won a majority of the 151 elected seats and could form a government on its own. However, Mrs. Bandaranaike is expected to take into the new government her two partners in the coalition, the Trotskyite Lanka Sama Samaja Party and the pro-Moscow wing of the Communist Party of Ceylon.

Causes of the UNP defeat are not yet clear but widespread unemployment, a rapidly rising cost of living, Senanayake's action in cutting the subsidized rice ration, and coalition charges that the UNP was becoming subservient to the West presumably were factors.

The new government's domestic policies, as revealed in an election manifesto, would include the establishment of "people's committees" to supervise the workings of the bureaucracy, nationalization of remaining private banks, and increased state control over the import-export trade. In the private sector, increased Ceylonization of ownership is to be pursued.

The manifesto indicates there will be an anti-Western bias in Ceylon's future "non-aligned" foreign policy. It promised recognition of East Germany, North Korea, North Vietnam, and the Provisional Republic of South Vietnam, as well as suspension of relations with Israel. Mrs. Bandaranaike, despite her campaign charge that Western assistance was undermining Ceylon's sovereignty, probably will attempt to avoid seriously antagonizing potential aid donors because of Ceylon's continual economic problems.

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